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# **China, Peoples Republic of**

## **Market Development Reports**

### **Impact of SARS on Shanghai's HRI, Food Service and Logistics Sectors**

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#### **Report Highlights:**

**Heightened public awareness of and the sharp increase in the number of known cases of SARS over the past month in mainland China have led to several changes in consumption patterns, sales and prices in the food service and retail sectors. Although so far Shanghai appears to have escaped a major outbreak, increased public concern over the disease has greatly affected sales and production. The following report highlights the impact SARS has had on HRI, retail, food service and logistics sectors in Shanghai. It also raises possible issues relating to SARS' impact on US exports to China.**

Shanghai ATO [CH2], CH

Heightened public awareness of and the sharp increase in the number of known cases of Severe Acute Respiratory Syndrome (SARS) over the past month in mainland China have led to several changes in consumption patterns, sales and prices in the food service and retail sectors. Although so far Shanghai appears to have escaped a major outbreak, increased media reporting and public concern over the disease has greatly affected the city's HRI, commercial and food industries.

Through April, Shanghai posted economic gains from last year, but it will not be until the release of May and subsequent months' data that the full impact of SARS on the city's economy and trade will be known. The Shanghai government reported 12% GDP growth in April (compared to last April), a record 47.9% growth in exports (over USD 4 billion in April), 8.4% retail sales growth and a 41.9% growth in realized investments. The post-SARS economic impact will be reported when the situation stabilizes and figures become available.

The annual May holiday, which usually runs for one week, was cut to five days (May 1 - May 5) in the national government's effort to prevent the spread of SARS. The Shanghai Commercial Commission conducted a survey of various industries, and the results were a mixed bag of some skyrocketing sales figures along with major drops in certain sectors. The Commission announced that the city's major retailers still managed to post an overall 1.5% sales growth during the holiday.

The following sections highlight the impact SARS has had on the HRI, retail, food processing and logistics sectors in Shanghai. The information is drawn from ATO surveys, newspaper articles and published reports from municipal organizations.

### **HRI: Mixed news, but all of it bad**

Sales figures and occupancy rates for restaurants and hotels have been steadily dropping since the beginning of April. Canceled business meetings have also led to the sharp decrease in the usage of hotel facilities. According to the Shanghai Catering Association, Shanghai's restaurant industry has been hurt by fears of SARS, which has encouraged people to stay at home to eat. Sales have dropped by at least 60% compared to early April.

During the May holiday, the entertainment sector fared even worse, with one major movie theater, Paradise Cinema, posting a 67.4% drop in ticket sales compared to last year. Restaurants also fared poorly - 80 restaurants surveyed reported a 44.6% decrease in sales compared to a year ago. Forty-five surveyed department stores also reported losses of 26.4% from last year.

Effective the first week of May, the Shanghai Health Department now requires all hotels in Shanghai to take guests' temperature every time they enter the hotel. Hotel staff are required to take the temperatures of all guests who enter through any entrance, including hotel restaurants, side doors and health clubs. Even though implementation has been inconsistent, ATO expects that such a measure will only further discourage people from patronizing hotel restaurants. Restaurants account for about a quarter of meat sales in China, and with lowered demands, meat and poultry prices have dropped considerably.

### **Wholesale & Retail Food Markets: An onion a day keeps SARS away?**

One of the few winners in the battle against SARS has been the local retail food industry, which has posted increased sales figures, particularly of fresh produce, other health-oriented items and even items that are rumored to negate the spread of the SARS virus. Shanghai Central Wholesale Produce Market reported average vegetable sales of about 1,100 tons per day, a 30% increase over the previous two weeks. Selling particularly well were onions, green onions and garlic, which many Shanghainese believe help maintain good health and ward off viruses. Fruits also sold well at around 110 tons per day. Of all produce, both local and imported oranges saw the largest jump in sales. *Shanghai Business* newspaper reported that citywide sales of fresh fruits reached 3,000 tons per day, a 20% increase over the same period in April. However, the sales of poultry and pork products have dropped by 20-30% compared to the previous two-week period.

During the May holiday, at 34 of the city's major supermarkets and convenience stores, sales were up 34.2% to RMB 454 million (US\$54.9 million) during the five-day break. The 13 drugstore chains surveyed posted a 26% increase in sales to RMB 3.75 million during the break.

### **Where's the Pork?: Anecdotal information on meat production**

At this stage, cumulative findings on the food processing industry as a whole are not available. Anecdotal information, however, serves as an indicator of how companies are coping with lowered demand and overall industry depression. People's Food Holdings Ltd., for example, China's largest publicly traded meat processor, announced it will temporarily halt pig slaughtering at three plants, which account for about half of the 6 million pigs it processed last year. It will also delay the opening of a new plant because of concerns of the spread of SARS.

Despite some companies such as People's Food's cutting output, meat prices are falling because consumers are buying fewer meat products and shunning restaurants. Rumors that SARS might come from animals has led some residents not only to avoid eating meat but also to discard their pets. Pork prices have fallen by 7.4 percent since early April. In Shandong, China's main poultry breeding region, chicken prices have fallen more than a third since mid-April.

### **The Moving Target: Delays and rising costs for food shipments**

Shipment of certain goods from SARS-affected areas such as Beijing and Guangdong into Shanghai is also being halted in an effort to guarantee the safety of goods for sale. Cao An Road Food Market, one of Shanghai's largest vegetable wholesalers, reports that vegetables now are being brought in only from Shandong province, Shanghai's neighboring provinces and Shanghai itself. Markets such as the one on Cao An Road, are taking precautions such as disinfecting the market twice daily and banning out-of-town transport workers from entering the market.

The shipment of certain fruits grown in specific regions is also being delayed. Lichees, for instance, are only grown in several southern provinces including Guangdong, and local fruit buyers have decided to wait until June to purchase them and sell them in Shanghai due to the high rate of SARS in Guangdong. According to an official at Shanghai Fruit Company, Ltd., lichees will reach the market this June, one month later than usual. The company has opted to delay purchasing trips to Guangdong and otherwise stave off any risks of spreading the virus while

transporting the fruit.

Seafood from China's southern regions is another commodity that Shanghainese are temporarily doing without. Many markets are now avoiding seafood from Guangdong province and instead are importing shrimp from Thailand and transporting fish from Dalian, a port city in northeast China's Liaoning province.

China's logistics industry as a whole has also been hampered by the national presence of SARS. The shipment of goods is already a cumbersome part of doing business in China, with trucking a particularly disorganized part of the distribution chain. Health checks on major highways have led to severe traffic back-ups while general SARS-related fears have led to a trade slow-down in many parts of the country, including Shanghai.

Domestic trade, which is increasingly routed through Shanghai, has been hurt in part by procedures aimed at containing the disease on the city's outskirts. The government has mandated that SARS-related medical equipment take priority, resulting in rising costs (despite plummeting demand for certain goods) on key routes such as the Shanghai-to-Beijing corridor. Rising costs are hurting transport companies, which have no choice but to keep up. For instance, a certain midsize Shanghai transport company typically has 800 to 900 trucks running between Shanghai and Beijing each month; this month it expects that number to drop to 500 to 600 trucks. According to an interview in an article in the *Asian Wall Street Journal*, one freight forwarder said it now costs her RMB 5,000 (\$604) to hire a truck for the 1,460 km drive to Beijing, compared with RMB 3,000 previously.

In an effort to support companies that export agricultural products, the Shanghai municipal government has announced plans to refund the VAT on exported agricultural products using the reduced-interest loan mechanism.

### **Impact on US Food Exports**

The impact of SARS on US food exports will depend on how long the outbreak lasts, and more specifically on how long it affects daily life. Anecdotal evidence indicates that the mood in Shanghai has already lightened somewhat, even as protective measures become a part of daily life. Reports from other cities in the region, however, indicate that the mood in these areas remains extremely cautious. Under these conditions, it will be difficult to assess the impact until statistics become available in a few weeks. Two potential issues, however, bear close observation in the coming weeks. The first is the negative impact SARS has had on meat consumption. Since the bulk of the damage is the result of declining restaurant sales, exporters are unlikely to benefit as a result of their countries' SARS-free status. This may, however, help sales at the retail level. Second, SARS has clearly had a strong impact on the movement of products from Guangdong/Hong Kong to the rest of China. This appears likely to affect imports transshipped through Hong Kong as much as domestic products. If this trend continues, it could reinforce the long-term trend toward direct shipment of imported meat, fruit and vegetables to China. Further reporting on these issues will be provided as the impact becomes more clear.